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NO. 81-5

IN THE

Supreme Court of the United States

OCTOBER TERM 1981

HOLLESS W. ALLEN and ALLEN ARCHERY, INC.,
Petitioners,

—*v.*—

PRECISION SHOOTING EQUIPMENT COMPANY and PAUL E. SHEPLEY, JR. and BEAR ARCHERY COMPANY, DIVISION OF VICTOR UNITED, INC.,
Respondents.

BRIEF IN OPPOSITION TO PETITION FOR CERTIORARI

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Respondent, Bear Archery Company, respectfully submits that the petition for writ of certiorari in this case should be denied for the reasons that:

1) The law of declaratory judgment jurisdiction over patent validity challenges in the Third, Seventh and Tenth Circuits is wholly consistent and not in conflict as represented by Petitioners. There is no decisional conflict to justify issuance of the writ requested.

2) The question of entitlement to interim royalties was argued below by Petitioners on a narrow issue of whether there existed *in the Seventh Circuit* an estoppel by patent marking exception to the decision by this Court in *Lear* v. *Adkins,* 395 U.S. 653 (1969). The decision below rejected Petitioners' estoppel argument and established that the Court of Appeals for the Seventh Circuit would, as do all other circuits which have had an opportunity to decide the question, follow the *Lear* decision in encouraging early challenges to patents. Thus, there is no compelling reason for review of this question by this Court.

Background

Petitioners' background statement is, in certain respects, both misleading and incomplete.

Respondent's declaratory judgment complaint in the underlying action seeks a declaration of invalidity of Petitioners' Letters Patent. The complaint was instituted by Respondent as an intervenor in the original action begun by Precision and while Respondent maintained a license under the patent in question. One of the allegations of jurisdiction is diversity between the Respondent and the Petitioners.

Respondent sought to escrow royalties because Judge Morgan, after an evidentiary hearing concerning Petitioner Allen Archery Inc.'s financial condition in the original action, found that Petitioners would not be able to repay post-challenge royalties should the underlying patent be declared invalid, as was reasonably likely (Appendix B to the Petition). There was no appeal from that finding and Judge Morgan reasserted it in his Order of September 6, 1978 with respect to the intervention by Respondent (Appendix C to the Petition).

In his subsequent Order of April 2, 1979, Judge Morgan continued the escrow arrangement on the basis of Petitioners' financial difficulties, but released to Petitioners all post-challenge royalties accruing while Respondent marked its products with the number of the patent in suit. Judge Morgan felt bound by the decision of the Court of Appeals for the Seventh Circuit in *Kraly* v. *National Distiller & Chemical Corp.*, 502 F.2d 1366 (7th Cir. 1974) which he interpreted as establishing a patent marking estoppel as an exception to this Court's decision in *Lear* v. *Adkins*, which sanctions licensee challenges to patent validity (Appendix E to Petition).

Judge Baker, who was granted an opportunity to review the April 2 Order of Judge Morgan, disagreed and held that there should be no such exception (Appendix G; Appendix H to the Petition). Consequently, Judge Baker ordered that all post-challenge royalties would remain in escrow. The status of the doctrine of estoppel by marking in the Seventh Circuit was thereafter argued to the Court of Appeals below which also rejected Petitioners' argument (Appendix A to the Petition).

ARGUMENT

I.

There is no conflict between the circuits as to jurisdiction in declaratory judgment actions and the Court below admitted to none.

Petitioners have incorrectly stated that the Court below has admitted a conflict between itself and the Third and Tenth Circuits with respect to the question of declaratory judgment jurisdiction in patent validity challenges.

The quotation from the Court below, which Petitioners have set forth on page 6 of their Petition, does not sup-

port Petitioners' characterization of that Court's view of its decision vis-a-vis the Third and Tenth Circuit Courts of Appeal. The statement quoted demonstrates that the Court below has recognized that the Third Circuit in *Thiokol Chemical Corp.* v. *Burlington Industries Inc.*, 448 F.2d 1328 (3rd Cir. 1971), cert. den. 404 U.S. 1019 (1072) and the Tenth Circuit in *Product Engineering and Mfg., Inc.* v. *Barnes*, 424 F.2d 42 (10th Cir. 1972) have denied jurisdiction over a patent validity challenge where there was a valid license only "*in some circumstances*". Those "*circumstances*" were found not to be germane here.

After reviewing the *Thiokol* cases, as well as the subsequent holding by the Third Circuit in *American Sterilizer Co.* v. *Sybron Corp.*, 526 F.2d 542 (3rd Cir., 1975), the Court below concluded that in the Third Circuit declaratory judgment jurisdiction under *Thiokol* would be denied as to patent validity challenges brought by licensees only in the absence of diversity (App. A to the Petition, page A-8).

Accordingly, where diversity jurisdiction exists, as in the present case, the Court below has agreed with the Third Circuit opinion in *American Sterilizer* that under the present circumstances there is declaratory judgment jurisdiction.

The "circumstances" under which the Tenth Circuit would deny declaratory judgment jurisdiction, although not elabtorated upon by the Court below, are clear from a reading of the cited *Product Engineering* decision. There, a declaratory judgment action asserting patent invalidity was filed by a licensee after a state court contract action had been instituted against the licensee by the patentee. Citing this Court's decision in *Public Service Commission of Utah* v. *Wyckoff*, 344 U.S. 237 (1952), the Tenth Circuit held that the declaratory judgment action for pa-

tent invalidity was really no more than a defense in the state court contract action (424 F.2d at p. 44). In *Milprint, Inc.* v. *Curwood, Inc.*, 562 F.2d 418 (7th Cir. 1977), which was held not to control the present case because of a prior state court action there (App. A to the Petition, Page A-10), the Court of Appeals for the Seventh Circuit likewise held that the character of the defense (patent invalidity) does not determine whether there is federal question jurisdiction over a declaratory judgment action (App. A to Petition, page A-5).

Neither *Milprint* nor *Product Engineering* is apposite here in the absence of a prior state court action by the patentee to which a subsequent declaratory judgment action would be merely a defense.

Therefore, contrary to Petitioners' contentions, the Court below has in fact distinguished the cited Third Circuit and Tenth Circuit cases from the present situation and these cases cannot be viewed as being "contrary" to the decision for which review is being sought here.

In addition to having carefully reviewed and distinguished decisions in other circuits, the Court below, in affirming that declaratory judgment jurisdiction is proper here, expressly relied upon this Court's holding in *Public Service Commission of Utah* v. *Wyckoff Co., Inc.*, in stating as follows:

> "But in the final 'analysis when all the axioms have been exhausted and all words of definition have been spent, the propriety of declaratory relief in a particular case will depend on a circumspect sense of its fitness informed by the teachings and experience concerning the functions and extent of federal judicial power.' *Public Service Commission of Utah* v. *Wyckoff Co., Inc.* 344 U.S. 237, 243 (1952). A court must be able to see the legal issue to be decided, the

> effect its decision will have on the parties and that some useful purpose can be achieved. 344 U.S. at 244." (App. A to the Petition, Page A-11)

The decision below is not a departure from the decisions of other Courts of Appeal as to declaratory judgment jurisdiction and represents a salutory application of the principals set forth by this Court in the *Wyckoff* decision. Accordingly, there is no need for this Court to review the jurisdictional matter further.

II.

Entitlement to post-challenge royalties was resolved below in accordance with this Court's Opinion in *Lear* v. *Adkins*.

As noted above, Respondent has been paying royalties into escrow pursuant to order of the District Court after the validity of Petitioners' patent was challenged. Petitioners argued below for release of these royalties on the very narrow ground that a prior opinion of the Court of Appeals for the Seventh Circuit in *Kraly* v. *National Distillers & Chemical Corp.* (Supra) established an exception in the Seventh Circuit to this Court's opinion in *Lear* v. *Adkins*. Petitioners argued that under *Kraly*, a licensee who continued to mark its products with the number of the challenged patent would not be entitled to recover post-challenge royalties even if it were successful in its challenge.

After careful analysis the Court below determined that the prior *Kraly* decision relied upon by Petitioners did not establish a marking estoppel and that there should be no such exception to the *Lear* doctrine. In holding that a licensee is entitled to recover post-challenge royalties

as an economic incentive to encourage challenges to patent validity, the Court of Appeals below has adopted this Court's *Lear* policies and in so doing has brought itself into conformity with other Circuits, such as the Second,[1] Third[2] and the Sixth,[3] and Ninth[4] which have had an opportunity to decide this question. There is now no disagreement in the Circuits with respect to the salutory effect of the *Lear* decision to encourage challenges to patents, and there is no necessity for this Court to inject itself into this issue.

There has been no unjust extension or misapplication of the holding or judicial policies set forth in this Court's Opinion in *Lear* v. *Adkins*. In crying "economic strangulation", Petitioners are attempting to suggest that they have been unfairly treated by the courts below, or that there has been an improper departure from customary judicial process. Nothing could be farther from the truth.

Apparently hoping that this Court would be blind to the large number of judicial proceedings which preceded the opinion for which review is sought, Petitioners are now focusing on the escrow arrangement established by the Illinois District Court and by which license royalty monies are being safeguarded *pendente lite*. Far from being a capricious act by the District Court, the escrowing of roy-

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[1] *Warner-Jenkinson Co.* v. *Allied Chemical Corp.*, 567 F.2d 184 (2d Cir. 1977).

[2] *American Sterilizer* (*supra*).

[3] *Atlas Chemical Industries Inc.* v. *Moraine Products*, 509 F.2d 1 (6th Cir. 1974).

[4] *St. Regis Paper Co.* v. *Royal Industries*, 552 F.2d 309 (9th Cir. 1977).

alties is being permitted here in part because of an express unappealed finding by the District Court that the licensor, Allen Archery Co., would likely be unable to repay post-challenge royalties should the patent in suit be declared invalid. The Court below also recognized that Respondent might well being suffering economically as a result of the royalty requirements. The Court acknowledged that "It is questionable whether Bear is actually enjoying any benefit from the license" (App. A to Petition, page A-14).

The equities of the parties have been carefully weighed by two District Court Judges and by the appellate court below in light of this Court's *Lear* decision. The decisions reached favored the establishment of an escrow account temporarily to protect the disputed and substantial amounts of money accruing. Petitioners may not be happy with that result, but there has been no departure from fair and impartial judicial process and Petitioners have failed to point to any.

Accordingly, it is submitted that the matter of weighing equities to determine whether an escrow arrangement for interim royalties should be established is not a question on which guidelines are required from this Court. This Court's supervisory powers need not be exercised to review the Petitioners' unstable financial background.

CONCLUSION

There are no special or important reasons for granting a review on writ of certiorari in this case. The decision below is not in conflict in any respect with decisions of other federal courts of appeal. The federal legal principles set forth by this Court in *Lear* v. *Adkins* have been faithfully followed not only by the Court below but by all other federal courts of appeal having the opportunity to deal with the questions in this case. The federal courts handling this case below have followed accepted and usual processes in carefully weighing the equities involved and in establishing a protective royalty escrow fund *pendente lite*.

The petition for a writ of certiorari should be denied.

Respectfully submitted,

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